

Tennessee Arts Commission

**For the Years Ended
June 30, 1997, and June 30, 1996**

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April 26, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Bennett Tarleton, Executive Director
Tennessee Arts Commission
401 Charlotte Avenue
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Arts Commission for the years ended June 30, 1997, and June 30, 1996.

We conducted our audit in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the commission's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Tennessee Arts Commission is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The commission's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the commission's internal controls and/or instances of noncompliance to the management of the Tennessee Arts Commission in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sk
98/088

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

Tennessee Arts Commission

For the Years Ended June 30, 1997, and June 30, 1996

AUDIT SCOPE

We have audited the Tennessee Arts Commission for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, inventory, revenue, expenditures, payroll and personnel, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

Inadequate Controls Over Museum Equipment **

Two equipment items could not be located. Furthermore, equipment items did not have state tags affixed, and serial numbers on items did not agree with the numbers recorded in the Property of the State of Tennessee (POST) system. One item was listed as retired in POST, although the item was still in use (page 4).

Equipment at the National Civil Rights Museum Not in POST

The Tennessee State Museum has oversight responsibility for the equipment at the National Civil Rights Museum but has not added the equipment to POST (page 5).

Inadequate Controls Over Museum's Artifact Inventory **

The museum lacks written policies and procedures for critical areas in the inventory process. Furthermore, values at the time of acquisition are not reported in the museum's computerized inventory system. Artifact appraisals are not reviewed by a supervisor to ensure reasonableness. Descriptions entered into the system were not adequate (page 7).

Internal Controls Over Donation Box Collections Inadequate*

The commission could not account for \$540.51 in missing donation box collections. Furthermore, the policies and procedures governing the collection process were not followed (page 15).

The Commission's Policies and Procedures for Subrecipient Monitoring Inadequate**

The commission's policies and procedures for subrecipient monitoring do not ensure that the subrecipients deemed most risky will have on-site monitoring. Furthermore, the policies were not being followed during the audit period (page 19).

Federal Funds Not Drawn Down Timely**

The commission did not draw down federal funds timely as required by the Department of Finance and Administration's Policy 20. The commission draws down federal funds quarterly, not weekly, as the policy requires (page 22).

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Arts Commission
For the Years Ended June 30, 1997, and June 30, 1996

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Tennessee Arts Commission

For the Years Ended June 30, 1997, and June 30, 1996

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Arts Commission. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

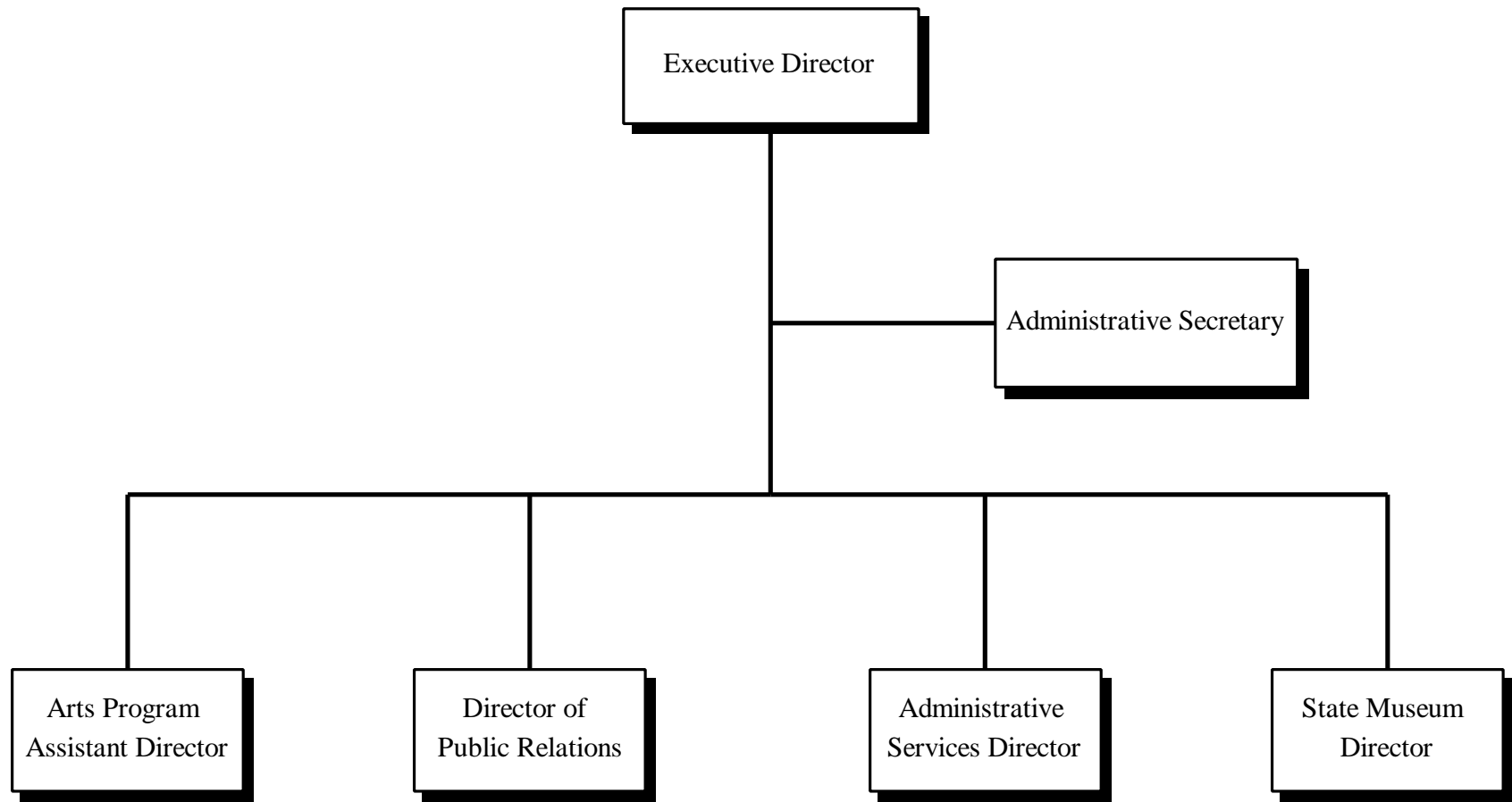
BACKGROUND

The Tennessee Arts Commission’s mission is to stimulate and encourage throughout the state the study and presentation of performing, visual, and literary arts and public interest and participation therein; to encourage participation in, appreciation of, and education in the arts to meet the legitimate needs and aspirations of persons in all parts of the state; to take such steps as may be necessary and appropriate to encourage public interest in the cultural heritage of the state, to expand the state’s cultural resources, and to promote the use of art in the state government’s activities and facilities; and to encourage excellence and assist freedom of artistic expression essential for the well-being of the arts. In addition to its responsibility for and to the arts and artists in Tennessee, the Arts Commission has supervision and administrative responsibility for the Tennessee State Museum.

The commission’s 15 members are appointed by the Governor and are to be broadly representative of all fields of the arts. At least one member, but not more than two, is appointed from each United States congressional district in Tennessee. Terms of appointment are five years. Members of the commission who complete a five-year term cannot be reappointed until a full year has passed. The commission is assisted in its efforts by advisory panels composed of interested citizens and artists. An executive director is employed as administrative officer of the commission who in turn employs all other staff members needed for operations.

An organization chart of the department is on the following page.

**TENNESSEE ARTS COMMISSION
ORGANIZATION CHART**



AUDIT SCOPE

We have audited the Tennessee Arts Commission for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, inventory, revenue, expenditures, payroll and personnel, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EQUIPMENT

The objectives of our review of the commission's equipment controls and procedures were to determine whether

- property and equipment in the general fixed asset account group represented a complete and valid listing of the cost of assets purchased or leased and physically on hand;
- the cost, and if applicable the related depreciation, associated with all sold, abandoned, damaged, or obsolete fixed assets was removed from the account group;
- property and equipment were adequately safeguarded;
- capital expenditures represented a complete and valid listing of the property and equipment acquired during the audit period; and
- equipment purchases charged to federal grants, if applicable, were in compliance with grant requirements.

We interviewed key personnel to gain an understanding of the procedures and controls over equipment at both the Tennessee Arts Commission and the Tennessee State Museum. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on nonstatistical samples of equipment items.

We determined that controls over equipment were not adequate, as discussed in finding 1, and that the equipment list did not represent a complete and valid listing of the cost of assets physically on hand, as discussed in finding 2. In addition to the findings, other minor weaknesses came to our attention and were reported to management in a separate letter.

1. As noted since 1988, the Tennessee State Museum's controls over equipment are inadequate

Finding

The Tennessee State Museum still does not have adequate controls over equipment, a problem that has been reported since 1988. In response to the prior audit, the museum's management concurred and responded that the museum's director, in conjunction with a focus group, would establish written procedures to improve internal controls over property and equipment within the museum and to ensure compliance with applicable guidelines. However, no written procedures or policies were developed. Additionally, management proposed requiring museum staff to report each move-ment of equipment in writing to the property officer but did not institute this procedure. An accounting clerk was hired and assigned responsibility for all museum property.

The current audit revealed the following deficiencies:

- Two of 15 equipment items selected for review could not be located, and their absence had not been reported to the Office of the Comptroller of the Treasury.
- One of the 13 remaining items tested did not have a state tag affixed.

Testwork also revealed that the Property of the State of Tennessee (POST) system does not reflect accurate information. The following discrepancies were noted:

- Nine of 16 applicable items tested were not at the location listed in POST.
- The serial numbers for 16 of 30 applicable items tested did not agree with those entered in POST.
- Nine of 22 applicable equipment items selected could not be traced to POST.
- One item listed as retired in POST was still in use.

Testwork was also performed on new purchases of equipment:

- Three of seven items purchased were recorded as equipment but should have been recorded as supplies.

- One of three items purchased was not added to POST.
- Two of three items purchased were not assigned state tag numbers.

The Department of General Services' *Annual Inventory Memorandum* stipulates that each agency must identify and tag property assigned to it and prepare the necessary information to establish and update the property records. Failure to identify and record equipment weakens accountability over equipment and may result in the loss of equipment.

Recommendation

The commission's executive director should determine why museum management has failed to take corrective action since 1988 and, in particular, to follow through on the measures promised in response to the last audit. The commission's executive director should also ensure the museum's director takes steps to strengthen internal control over property and equipment and adheres to the policies and procedures mandated by the Department of General Services. The museum's director should also ensure that equipment records are updated to show changes in equipment. The commission's executive director should review the actions taken by museum management and ensure internal control deficiencies are corrected. Any lost or stolen items should be reported immediately to the Comptroller of the Treasury.

Management's Comment

We concur. The account clerk writes a quarterly report to keep the director of administration informed of equipment control matters. This report addresses such things as new equipment added to POST, equipment that has been surplus, and other inventory-related work. We have been working with the State Property agency liaison to correct problems encountered with POST and TOPS (i.e., doing an OPAY without an OFIX required, etc.).

In previous years, an incorrect object code was used to purchase and pay for equipment items. This in turn resulted in an incorrect record. The fiscal staff has been informed of this problem and instructed to research the correct object code so that only equipment is labeled as "equipment" (either code 16 or sensitive equipment in code 099).

During the current fiscal year's physical inventory work, special care is being taken to verify serial numbers, locations, and presence of a state tag. The account clerk has been instructed to be more specific as to equipment location (floor, department, and responsible staff member). This information is being entered into an in-house listing which will allow us to reflect the latest changes. As the information is entered in POST on the 924 screen, the 785 and POSR screens are also being updated. These changes to POST should make the current information correct. These changes and the completion of the annual physical inventory should be finished by June 1, 1999.

2. Equipment at the National Civil Rights Museum has not been added to POST

Finding

The Tennessee State Museum failed to properly account for equipment and artifacts when it was given oversight of the National Civil Rights Museum in Memphis, Tennessee, in June 1991. The museum not only failed to enter the equipment into the Property of the State of Tennessee (POST) system but also neglected to have the artifacts appraised. The Department of the Treasury's Division of Risk Management has insured the contents of the National Civil Rights Museum for \$5,250,000, but the civil rights museum's artifacts inventory (documentation prepared and maintained by civil rights museum staff) lists the value at \$31,940. (The Tennessee State Museum had no valuation information.) Without proper documentation and appraisal of equipment and artifacts inventory, museum management cannot support the valuation for insurance purposes.

The *Codification of Governmental Accounting and Financial Reporting Standards*, Section 1400.112, states in part:

However, governmental units are sometimes faced with the task of establishing appropriate fixed asset accounting records and valuations after many years of operations without such records. In such situations, the original purchase documents may not be available, or an inordinate expenditure of resources may be required to establish original asset costs precisely. It may therefore be necessary to estimate the original costs of such assets on the basis of such documentary evidence as may be available, including price levels at the time of acquisition, and to record these estimated costs in the appropriate fixed asset accounts.

Because state museum management has not entered this equipment into the state's property system since 1991, the amount shown in the general fixed assets account group presented in the Tennessee Comprehensive Annual Financial Report does not reflect the correct value of property and equipment.

Recommendation

The commission's executive director should ensure that state museum management works with the Department of General Services to determine what equipment from the National Civil Rights Museum qualifies under POST guidelines. This equipment should be entered in POST at estimated cost. The state museum's director should also ensure all artifacts have been properly appraised. The commission should ensure state museum management has recorded equipment and appraised the artifact inventory.

Management's Comment

We concur. The National Civil Rights Museum Project was first under the Tennessee Department of Conservation. After Capital Projects completed the project, lease and management agreements recommended by the Tennessee Department of Finance and Administration established the Tennessee State Museum as the oversight agency for the National Civil Rights Museum. All records were presented to the State Museum after the project completion. Inventory lists did not include purchase costs, purchase order numbers, or purchase dates. The State Museum has made several attempts to satisfy the Department of General Services' procedures and has requested technical assistance from State Property Utilization. The assistance has not been provided to date. In the meantime, the State Museum maintains an in-house inventory listing of property and an inventory is done annually. The State Museum is unable to enter this information into POST due to the need for the original purchase documentation. The State Museum fiscal staff continues to work with the State Property liaison to analyze the property listing for the National Civil Rights Museum to determine what qualifies for POST. A listing when completed will then be entered into POST with estimated costs assigned.

INVENTORY

The objectives of the review of inventory controls and procedures at the Tennessee Arts Commission were to determine whether

- the Tennessee State Museum's inventory, whose value is included in the state's general fixed asset group, represented a complete and valid listing of inventory on hand;
- inventory items were valued at cost at date of purchase or if donated at market value at time of donation;
- inventory items were properly appraised for insurance evaluation;
- inventory items were adequately safeguarded;
- policies and procedures concerning the recording and valuation of items were adequate, and
- purchases charged to federal grants were in compliance with grant requirements.

We interviewed key personnel to gain an understanding of the commission's procedures and controls over artifacts. We also reviewed supporting documentation for these procedures and controls. In addition, nonstatistical samples were tested to achieve our objectives.

We determined that controls over artifacts were not adequate, as discussed in the finding. In addition to the finding, other minor weaknesses came to our attention and were reported to management in a separate letter.

3. The Tennessee State Museum does not have adequate control over its inventory of artifacts

Finding

As stated in audit reports since 1985, the Tennessee State Museum does not have a correctly valued inventory listing of its artifacts and antiques and lacks adequate controls over the inventory items. In response to the prior audit finding concerning the artifact inventory, museum management stated that they were implementing a collections management system and anticipated that their records would be converted by the end of June 1996 from paper files to the computerized collections management system (ARGUS). At the time of this audit, the museum had completed entering the artifact inventory records into ARGUS. Contract workers are surveying all artifacts to ensure they are listed on the ARGUS inventory and assigned a value. According to state museum management, this process is approximately 50% to 60% complete. Until this survey is completed, the museum cannot proceed with periodic physical inventory counts.

An artifact becomes property of the State of Tennessee when the state purchases the artifact or an individual or organization donates the artifact. All artifacts, regardless of when they were acquired, are appraised at current value. Although current value is appropriate for insurance purposes, the original cost or estimated value at the time of donation should be used for accounting purposes.

The *Codification of Government Accounting and Financial Reporting Standards*, Section 1400.113, requires that donated items be recorded at their estimated value at time of donation. Furthermore, Section 1400.112 states that if original purchase documentation is not available or if an inordinate expenditure of resources is necessary to establish the original cost of fixed assets, an estimate of the original cost of the assets based on available documentary evidence may be used. The Tennessee State Museum has not recorded in ARGUS the value of its artifacts at time of donation or at purchase price.

In reviewing the inventory process, the following weaknesses were also noted:

- a. Complete written policies and procedures for artifact collections were not developed for acquisition, valuation (fixed asset and insurance value), artifact loans, safeguarding to include management and preservation of artifacts, and a periodic inventory process that meets both industry and state requirements.

- b. Artifact value at time of donation had not been recorded for much of the inventory. Fifteen of 25 artifacts (60%) tested did not have a donated value recorded. Four of these 15 artifacts did not have a date of donation listed.
- c. The value at the time of acquisition was not recorded in ARGUS for all purchases. The price of eight of 25 items (32%) purchased during the audit period was not recorded.
- d. Periodic physical inventories of the artifact collection were not performed.
- e. The artifact receipt log was not compared to the artifact accession (or addition) log to ensure all items were assigned unique numbers and entered into ARGUS.
- f. The appraisal criteria (such as expert opinions or authoritative publications) were not documented on ARGUS. Twenty-five of 25 artifacts (100%) tested did not have the appraisal criteria documented. Therefore, it could not be determined if appraisals were reasonable.
- g. Damaged artifacts were not reappraised. Therefore, valuation for insurance purposes may not be accurate or reasonable.
- h. One of 25 artifacts purchased during the audit period was appraised at less than the purchase price. The item, a painting, was purchased for \$4,000 and appraised for \$300. This underappraisal occurred because the painting was appraised by someone on the museum's staff other than the painting curator and the purchase price was not available to the appraiser. Museum personnel sometimes appraise artifacts that are outside their areas of expertise.
- i. Artifact appraisals which are conducted by museum staff were not reviewed by supervisory personnel. Once the appraisal was performed, no one reviewed the appraisal for reasonableness.
- j. Paintings were not properly stored to prevent deterioration. Deterioration changes the value of inventory requiring reappraisal to prevent overstatement on the inventory valuation.
- k. An accurate record of state property was not maintained.
 - Descriptions of two of 25 artifacts tested from the artifact listing were not specific enough to identify the items.
 - Four of 50 artifacts tested during the audit period were not properly marked with an object ID number.
 - One of 25 items tested was not on the artifact inventory system.

- One of 25 artifacts tested was not in the location listed in the ARGUS artifact management system.

Accurate appraisals of museum artifacts are necessary to ensure the commission does not overpay insurance premiums or underinsure the inventory. If damaged items are not reappraised, the value of the museum's inventory could be overstated and overinsured.

Recommendation

The commission's executive director should require museum management to strengthen internal controls over artifact inventory, to ensure that the artifact inventory is correctly valued and that the valuation is documented, and to ensure all artifacts are on ARGUS. Complete written policies and procedures for the artifact inventory should be developed by museum management. An adequate number of properly trained collections personnel should be assigned to value, manage, and inventory the artifacts. The commission and museum management should monitor controls to ensure they are properly implemented.

Management's Comment

We concur. Though the State Museum agrees that additional improvements in inventory can and should be made, this institution has made dramatic strides over the last six years, and is in better control of its inventory of objects than at any other time in its history. During that time, significant resources were devoted towards correcting inventory shortcomings, including the implementation of a computerization/data entry effort incorporating a complete physical inventory and imaging of the collections. The State Museum has also requested four additional full-time personnel, beginning in fiscal year 1999-2000, specifically to strengthen its inventory control.

Preface

At the outset it is important to note that this relatively in-depth analysis of the collections has only been possible due to the remarkable progress in inventory control made by the State Museum over the last six years. At no other time has a member of the Division of State Audit team devoted so much time and effort to the collections because, quite frankly, the records, procedures, and storage of those collections were in such poor condition that previous auditors eschewed any in-depth review of object inventory.

Computers were not installed at the museum until 1993. The paper records as they existed at that time were inconsistent at best, inherited from previous decades and even centuries (the museum's collection dates from 1818). The museum then spent two years, with four full-time contract personnel and a museum staff supervisor, entering most of the existing inconsistent information into the computer system.

After this initial data entry, the museum launched an ambitious physical inventory effort lasting almost three years and employing six full-time contract personnel and a museum staff

supervisor. The museum is now nearing the end of that effort, having reviewed more than 52,000 records (a single record itself may contain from one to one thousand artifacts), ascertaining the correct or incorrect location of an object, visually evaluating each object, and endeavoring to correct records, e.g., add descriptions where none existed or assign insurance values where none has been assigned previously.

Such an effort, which is virtually unprecedented in its scope in the museum profession, naturally has uncovered a multitude of additional issues which remain to be resolved. These include “problem” objects for which there is no record, “missing” objects, and objects which remain undervalued. These and other issues noted in the audit must be addressed in the future, including the development of a periodic and ongoing inventory sampling system. The museum staff hopes the State of Tennessee will provide the necessary staff and resources to develop and implement a realistic inventory plan.

Weaknesses

- a. Complete written policies/procedures not developed.

Answer: The State Museum does have written policies and procedures concerning acquisition, valuation, loans, and safeguarding objects, as well as other areas of collection management, which practically address those issues. The museum agrees that these written policies and procedures may be incomplete in terms of covering every contingency, and that they should be updated and reformatted.

- b. Artifact value at time of donation not recorded for much of inventory.

Answer: The State Museum’s primary concern has been and continues to be the necessity to keep objects valued in terms of present market values for insurance purposes. This is what is necessary to protect the collection in the event of loss or damage claims.

The museum was not informed, until this audit, that the original value at the time of acquisition is used for “accounting purposes.” For recent acquisitions (those after about 1975) we are confident that values at the time of receipt exist either in the paper files or ARGUS. The museum did not generally practice such careful documentation before about 1975.

- c. Value at the time of purchase was not recorded in ARGUS for all purchases.

Answer: Data entry personnel were not required by their contracts to enter acquisition costs. In retrospect, this should have been required. But even when the purchase price is not in the computer record, a record of the purchase price does exist in the paper file. The museum is now making efforts to enter past purchase prices in the computer record; all new purchases are being so entered.

- d. Periodic physical inventories were not performed.

Answer: Physical inventories were performed in past years as objects were removed from storage. Staff size, inadequate storage units (making it difficult to retrieve an artifact and often endangering the artifact by unpacking it), and poor records worked against developing a more ambitious inventory effort. However, a complete inventory program has been underway during the last two and a half years. The museum will develop and implement an ongoing inventory sampling effort, based on guidelines from the Smithsonian Institution and museum staff capabilities, at the conclusion of this present comprehensive inventory.

e. Artifact receipt log was not compared to artifact accession log.

Answer: The State Museum was made aware as part of this audit that the auditors desire to have the temporary object numbers (assigned and recorded on the “receipt log” when an object enters the museum) written on the permanent “accession log” (when the object is assigned a permanent number), and, conversely, that the permanent number be written on the “receipt log” once that permanent number is received. This will be implemented.

f. Appraisals were not reviewed by supervisory personnel.

Answer: This occurred as a result of the ongoing inventory program; inventory personnel were charged with the responsibility of assigning values where none otherwise existed in the computer. Inventory personnel were hired partially on their background to perform this task, and they have been periodically taken to antique sales and auctions to assist them with knowledge of appraisals. As a general rule, they have been assigning values to thousands of artifacts which are of so little monetary value that they do not warrant supervisory review (e.g., a “Rock City” souvenir ashtray from the 1950s). Appraisals of more significant items have been reviewed whenever the inventory personnel have requested it. Objects that were incorrectly valued have been corrected and are being corrected.

g. Paintings were not properly stored to prevent damage.

Answer: The State Museum has never been given funding to provide professional storage equipment for its artifact collection, including not only paintings, but firearms, quilts, flags, sculpture, and a multitude of other objects. Some limited “conservation” funding has recently been provided through the initiative of some members of the General Assembly, and over the last fiscal year those resources were devoted to acquiring proper painting storage racks, as a priority. Paintings are now being moved to those new racks. Additional storage racks will be purchased next year, if an appropriation is forthcoming. These racks prevent further deterioration, which generally occurred when the paintings or frames came into contact with each other.

h. An accurate record of state property was not maintained, i.e.,

- Descriptions of some artifacts were not sufficient to identify them.
- Four of 50 objects were not properly marked with numbers.

- One of 25 sample objects was not on the computer system.
- One of 25 sample objects was not at its location listed in ARGUS.

Answer:

- Some descriptions are inadequate for identification, largely as a result of improper curatorial work in past decades; these are being corrected as discovered. At the conclusion of the inventory effort, all objects should have an image which can be used to identify an object in the event that the written description lacks clarity. In addition, the computer upgrade, scheduled for fiscal year 1999-2000, will link object computer records with their digital images, further lessening the concern over incomplete written descriptions.
- Objects with missing or improper markings are being addressed as part of the inventory. Many of the objects were originally marked in the 1800s.
- Virtually all accessioned objects should be on the computer system at the conclusion of the inventory.
- Written procedures require that whenever an object is moved, the person moving the object is to change the location. Failure to do so is a serious infraction of proper collection management, and the consequences can result in loss of access to collection storage. If additional staff are acquired, access to collections storage will become more carefully controlled.

i. Appraisal criteria were not documented in ARGUS.

Answer: The museum has never been required by Risk Management to document (citing sources, auction results, etc.) objects valued at less than \$25,000; thus, while ARGUS may contain values and the name of the individual who has assigned the value, ARGUS did not usually contain a justification for that opinion. Values are generally assigned by curators familiar with market values. Curators, or those assigning values for objects over a threshold in value, are now required to enter a justification for their opinion.

j. Damaged artifacts were not reappraised.

Answer: Damaged artifacts have been reappraised, though inconsistently. Those which were discovered damaged, affecting their value, are being reappraised during inventory. Museum personnel will be required always to adjust values when damage affecting those values is discovered.

k. Some artifacts are appraised at values less than the purchase price, and museum personnel sometimes appraise artifacts outside of their area of expertise.

Answer: This improper ARGUS valuation has occasionally occurred due to a flaw in the data entry contract (i.e., contract personnel were not required to enter values) and the nature of the

inventory contracts (i.e., contract personnel were not required to consult paper files, which would have been unreasonably time consuming and vastly extended the terms of their contracts and expense to the state). The museum is attempting to go back and enter purchase prices where this has not been done.

The museum must rely on personnel appraising a wide variety of objects, which are often “outside their area of expertise.” A curator of art, for example, cannot have a comprehensive knowledge of all art, nor does he have the time to carefully research every object presented to him. He may be documenting or reviewing the value of a painting one moment (in the collection or on loan), and a piece of sculpture, architectural remnant, or pottery the next moment. For example, pottery-making alone is a very specialized field, with values varying wildly depending on an object’s or potter’s rarity and collectibility. Because the State Museum only has four curators, they and other professional staff members must stretch their knowledge to cover almost every conceivable object. Without a curatorial staff rivaling that in size of the Metropolitan Museum of Art in New York, mistakes will happen. Nevertheless, the museum has made and will continue to make every effort to make sure that appraisals are accurate, and the museum is confident that its appraisal records are more accurate now than ever before.

Conclusion

All the items contained in the recommendation are currently being addressed.

The recommendation that “adequate number of properly trained collections personnel should be assigned to value, manage, and inventory the artifacts” is partially being addressed through the museum’s current request for four additional positions. However, it remains difficult for the museum to attract “properly trained” individuals because the State of Tennessee continues to offer noncompetitive pay and benefits. During recent meetings with representatives of the Tennessee Department of Personnel, for example, it was noted that a curatorial-level position should require a master’s degree, but the department’s response was that the State of Tennessee will not offer sufficient pay to attract such a candidate, so those educational requirements should be lowered.

It should also be noted that the collection staff is called upon to perform a multitude of tasks apart from the focus of this audit. It is currently, for example, largely responsible for creating \$1.2 million worth of exhibits for the Tennessee Sports Hall of Fame (thematic/storyline development, electronic interactives, artifact acquisition and documentation, and oversight over design and installation); organizing an exhibition of 40 paintings and various artifacts to open in Caen, France, in June 1999 (involving contracts, loan agreements, insurance, international shipping, object selection, label writing/interpretation, and object-by-object condition reporting); returning an exhibition of 63 paintings to France and various other sites in the United States; completing the writing for all the historical entries on the Bicentennial Mall north of the Capitol; completing work on the 150th anniversary exhibit for the Tennessee Historical Society (selecting artifacts, graphics, developing storyline, acquiring and insuring loaned objects, working with designers and fabricators to open the exhibit at the State Museum in September, and negotiating with and contracting with other museums in Tennessee to send a traveling component to other

communities); continuing the purchase of artifacts, involving careful research and analysis to make certain the objects acquired are legitimate and at a fair price; and continuing to provide consultation to communities, public officials, and other individuals regarding museum and artifact issues.

From an auditor's point of view, we recognize it would be ideal if we were to devote all of our time to clearing up every problem and inconsistency with inventory records. We share these concerns and, in fact, the actions we have taken and are continuing to take to correct these problems demonstrate the fact that we take these responsibilities seriously. The museum staff can only work within the context of the many other responsibilities and obligations which are imposed upon it.

REVENUE

The objectives of the review of the commission's revenue controls and procedures were to determine whether

- revenue transactions were properly recorded and supported;
- cash collected during the audit period was deposited timely and accounted for in the appropriate fiscal year;
- physical controls over cash were adequate;
- revenue or fees were billed or charged and recorded at the correct amount;
- petty cash or change funds were authorized by the Department of Finance and Administration;
- commission records were reconciled with Department of Finance and Administration reports;
- procedures concerning donation box collections were adequate and were followed; and
- donation box collections were properly accounted for and deposited timely.

We interviewed key personnel to gain an understanding of the commission's procedures and controls over revenue. We also reviewed supporting documentation for these procedures and controls. A nonstatistical random sample of revenue items was tested to ensure items were recorded properly and deposits were made timely. In addition, a sample of donation box collections taken from the Incoming Funds Log was tested to ensure policies and procedures had been followed and donations had been deposited timely.

We determined that the internal controls over the donation box collections were inadequate and that \$540.51 in donation box collections and other revenue was never deposited, as discussed in finding 4. In addition to the finding, other minor weaknesses came to our attention and were reported to management in a separate letter.

4. Internal controls over donation box collections are inadequate and \$540.51 in donation box collections and other revenue transactions was never deposited

Finding

As noted in the prior audit, the Tennessee State Museum failed to deposit all donation box collections. Management concurred with the finding and developed policies and procedures for retrieving, receiving, and depositing donation box collections. Although management developed procedures, museum staff did not follow these procedures. Additionally, these procedures were not specific enough to ensure all necessary controls over cash collections were in place. Museum and commission staff failed to properly receipt and deposit \$484.51 of donation box collections and \$56 of other funds at the museum. The commission's Director of Administrative Services signed the museum's Incoming Funds Log indicating that the funds were received at the commission, but neither museum nor commission management could locate the missing money. Because a page of the Incoming Funds Log for the period November 16, 1995, to April 2, 1996, was missing, auditors could not determine if all money received at the Tennessee State Museum had been deposited. The audit also revealed the following weaknesses:

- a. No deposits were made from March 7 through June 28, 1996. However, \$5,949.89 was collected through the museum from April 3 to June 11, 1996. The largest amount was a \$4,000 insurance payment for broken artifacts, which the Tennessee State Museum received April 18, 1996. Of the \$5,949.89, a total of \$5,409.38 was finally deposited on June 28, 1996, when a new clerk was employed. The remaining \$540.51 was never deposited. As stated in Section 9-4-301, *Tennessee Code Annotated*, all funds collected or received shall be deposited "immediately into the Treasury or to the account of the state treasurer in a bank designated as a state depository or to the appropriate departmental account if authorized" by the Commissioner of the Department of Finance and Administration.
- b. The donation boxes were emptied approximately every two weeks, although there is no set schedule for emptying the boxes. Emptying these boxes at least weekly appears more appropriate given their accessibility.
- c. Unauthorized persons were allowed to empty the donation box at the War Memorial Building in Nashville. According to museum staff, the security guard on duty and the security supervisor empty the donation box approximately 75% of the time. The security supervisor takes the money, once it is counted, to the account technician at the museum. This practice is in direct violation of the museum's General Policy Statement Number 96-1, section 1.2, which states:

Money may be removed from the donation boxes under only two circumstances. The first circumstance is the regular emptying of the boxes, which is done by the Museum's Account Technician. The second circumstance is upon the written authorization of the Executive Director or the Director of Administration. There are no other circumstances allowing anyone to remove money from any Museum donation box.

- d. One person performs an initial count when money is collected from the donation boxes. According to museum personnel, the security guard on duty at the time does not re-count the money and does not always watch the account technician count the money. The security officer's signature on the Incoming Funds Log indicates only that money was removed from the donation box on a certain date. General Policy Statement Number 96-1, section 1.7, states:

After the count is completed, the total will be entered in the last column of the Donation Box Funds Log for the relevant date. The security officer will sign in the column marked "SECURITY" only after agreeing the count of the money is correct...

- e. The museum's Director of Administration did not sign the Incoming Funds Log during the following periods: October 9 to November 3, 1995; April 3 to June 27, 1996; and July 31, 1996, to June 30, 1997. In addition, it could not be determined whether the director had signed the log for the period November 16, 1995, to April 2, 1996, because the page covering this period was missing. General Policy Statement Number 96-1, sections 1.9 and 1.10, states:

The Account Technician will present the counted funds, along with the Donation Box Funds Log, for the inspection of the Director of Administration of the Tennessee State Museum. The Director of Administration will sign the Log, at which point the Account Technician will take the funds to the Tennessee Arts Commission for verification prior to deposit.

The director had not initialed the log for 23 of the 25 donation collections tested (92%), attesting to its correctness. Also, another account clerk, not the account technician, takes the money collected from the donation boxes to the Tennessee Arts Commission.

- f. Fifteen of the 25 donation collections tested were not deposited within one business day as required by Department of Finance and Administration Policy 25.

- g. An entry on the Incoming Funds Log for an \$88.75 donation box collection from the War Memorial Building on April 30, 1996, was marked out with a magic marker. No explanation for the mark-through was provided, and there was no evidence the commission had received or deposited the \$88.75.

Inadequate controls over donation box collections could lead to theft of funds or unauthorized purchases. In addition, failure to deposit commission revenue understates revenues.

Recommendation

The executive director should strengthen procedures for the donation box collections and ensure procedures are followed. These procedures should require that two employees empty the donation boxes, count the cash and sign and date a log documenting the amount taken from the box. Someone independent of the two employees collecting the cash should re-count the funds, to verify the amount indicated on the log, sign and date the log indicating that the count is true and accurate, and prepare the deposit slip. The Director of Administrative Services or his or her designee should review and sign the deposit slip. The collections should then be promptly deposited. Each month, commission staff independent of the collection process should reconcile the Donation Box Funds Log, the certificates of deposit, and the Department of Finance and Administration's monthly reports. The individual who prepares the reconciliation should initial and date the document. If changes to a log entry need to be made, the incorrect entry should be marked through (but still identifiable), the correct entry should be made, and the reason the correction was made should be explained on the log and initialed by the person making the correction.

Management's Comment

We concur. New controls over the donation money have been instituted.

1. Museum staff members deposit donation money and other revenue to an account in NationsBank.
2. Twice each month (usually on the 15th and the last day of each month), two museum staff members (account clerk and one other staff member) together empty both donation boxes (James K. Polk and War Memorial Military Branch facilities). They bring the money to the museum offices where they count the cash, verify the count, and sign and date the revenue log. This log book is a bound book with no loose-leaf pages.
3. The account technician verifies the count and prepares the deposit slip.
4. The Director of Administration (or her designee) signs the deposit slip and signs and dates the revenue log.

5. The account clerk takes the money to the bank for deposit and signs and dates the log book as to when it is deposited.
6. The account technician enters the deposit in STARS, notes the CD number in the log, and signs and dates the log. A log of certificates of deposits is kept with the DV register log.
7. All incorrect information made to the log is marked through according to appropriate state guidelines.

EXPENDITURES

The objectives of the review of the commission's expenditure controls were to determine whether

- recorded expenditures were for goods or services that were authorized and received;
- expenditures incurred for goods or services were identified and whether the correct account, budget category, period, and amount were recorded;
- expenditures for goods or services were authorized and were in accordance with the budget and other regulations or requirements;
- payments were timely;
- commission and museum records were reconciled with Department of Finance and Administration reports;
- payments for travel complied with the Comprehensive Travel Regulations;
- contracts were in accordance with regulations;
- contract payments complied with contract terms and purchasing guidelines and were properly approved and recorded;
- federal expenditures complied with grant requirements;
- funds encumbered were liquidated for the same purpose as the original encumbrance; and
- management corrected the prior finding concerning subrecipient monitoring.

We interviewed key personnel to gain an understanding of the commission's procedures and controls over expenditures and subrecipient monitoring. We also reviewed supporting docu-

mentation for these procedures and controls for both expenditures and subrecipient monitoring. In addition, testwork was performed on nonstatistical samples of expenditure transactions. Grant expenditure transactions were tested to determine whether federal expenditures complied with grant requirements. Travel expenditure transactions were tested to determine that payments for travel were in accordance with the Comprehensive Travel Regulations. Expenditure transactions were tested to determine whether the expenditures were in accordance with proper regulations.

We had no findings related to the expenditures testwork. However, we determined that controls over subrecipient monitoring were not adequate, as discussed in finding 5. In addition to the finding, other minor weaknesses related to expenditures and subrecipient monitoring came to our attention and were reported to management in a separate letter.

5. The commission's policies and procedures for subrecipient monitoring are inadequate

Finding

As stated in the two prior audits, the Tennessee Arts Commission has not systematically monitored its subrecipients. Management concurred with the prior audit finding and wrote procedures for monitoring. However, these procedures do not require on-site monitoring of all subrecipients. The commission's limited monitoring procedures consist of reviewing reports to support the drawdown request and periodically performing on-site and fiscal monitoring of some subgrantees. Although commission policy requires grantees receiving less than \$5,000 to submit copies of canceled checks and invoices as documentation of the costs associated with the grant, the commission did not request canceled checks during the audit period.

Section 40 of Office of Management and Budget (OMB) Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule)*, states that the grantee is responsible for monitoring both its own activities and those of its subgrantees. Furthermore, good internal controls mandate that the commission monitor subrecipient activities to ensure that awards and subsequent payments are authorized under the grant and that subrecipients comply with state and federal grant requirements.

After the conclusion of the audit, the commission drafted new policies and procedures which evaluate the subrecipients based on risk criteria. Each subrecipient will be deemed as either high, medium, or low risk. They will then be monitored based on their risk assessment. The subrecipients deemed high risk will be required to have on-site monitoring. Some of the subrecipients deemed medium risk may also be required to have on-site monitoring.

Recommendation

The Executive Director and the Arts Program Assistant Director should follow guidance prescribed in the Department of Finance and Administration's Policy 22 on subrecipient

monitoring (effective for fiscal periods beginning after June 30, 1998,) which requires monitoring of all subrecipients in accordance with the commission's monitoring plan.

Management's Comment

We concur that our current monitoring plan does not meet the Division of State Audit's criteria for an adequate plan. However, the commission has conducted desk and on-site monitoring activities of its subrecipients during its 32 years and, as noted in the finding, after the last audit and in consultation with the manager of that audit, the commission's previous monitoring system was reviewed. We then drafted new policies and procedures designed to evaluate subrecipients based on several risk criteria. Beginning in July 1998, each subrecipient was deemed as either high, medium, or low risk; the Arts Commission staff has conducted on-site monitoring of all those considered high risk and some of those considered medium risk during fiscal year 1999. That plan remains in effect. But a new master subrecipient monitoring plan has been created and submitted to the Division of Resource Development and Support, Finance and Administration. This plan will allow the commission to comply with Policy 22 of the Tennessee Department of Finance and Administration. We anticipate implementing this new monitoring system as of July 1, 1999.

PAYROLL AND PERSONNEL

The objectives of our review of the commission's payroll and personnel controls and procedures were to determine whether

- payroll disbursements were made for work authorized and performed;
- payroll was computed using rates and other factors in accordance with contracts and relevant laws and regulations;
- payroll was recorded in the correct amount and for the correct period;
- employees were qualified for their positions;
- performance evaluations were completed in the time period required;
- temporary employees who were retirees of the Tennessee Consolidated Retirement System were employed in compliance with Section 8-36-805, *Tennessee Code Annotated*; and
- payroll charges to federal grants, if applicable, were adequately supported and properly distributed.

We interviewed key personnel to gain an understanding of the commission's procedures and controls over payroll and personnel. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a nonstatistical sample of payroll and personnel transactions. These transactions were tested to determine whether payroll disbursements were in accordance with proper regulations and guidelines. We had no findings related to payroll and personnel; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires each executive agency to evaluate its systems of internal accounting and administrative control annually and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year.

The objectives of our review of the Tennessee Arts Commission's compliance with the Financial Integrity Act were to determine whether

- the commission's reports were filed in compliance with the act;
- documentation to support the commission's evaluation was properly maintained;
- procedures used in compiling information for the reports were adequate; and
- corrective actions had been implemented for weaknesses identified in the reports.

We interviewed key employees responsible for compiling information for the reports to gain an understanding of the procedures. We also reviewed the supporting documentation for these procedures and the reports submitted to the Comptroller of the Treasury and to the Department of Finance and Administration. We determined that the Financial Integrity Act reports were submitted on time.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS grant control table upon notification of the grant award, and whether related revenue and expenditure transactions were coded with the proper grant codes;

- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method;
- the commission made drawdowns at least weekly using the applicable STARS reports;
- the commission negotiated an appropriate indirect cost recovery plan, and whether indirect costs were included in drawdowns; and
- the commission utilized the appropriate STARS reports as bases for preparing the Schedule of Expenditures of Federal Awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the commission's procedures and controls concerning Policy 20. The STARS 832 Report and the Schedule of Expenditures of Federal Awards were reviewed. We determined that federal funds were not drawn down in accordance with the Department of Finance and Administration's Policy 20, as discussed in finding 6.

6. For the sixth year, the commission did not draw down federal funds timely as required by the Department of Finance and Administration's Policy 20

Finding

As stated in the two prior audits, the Tennessee Arts Commission did not comply with the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues." Policy 20 was issued in response to the Cash Management Improvement Act of 1990 and was developed to provide uniform procedures to ensure that various state institutions are accountable for state and federal funding received. Management concurred with the prior audit finding and stated that a drawdown policy and schedule would be developed and that these would comply with Policy 20. In addition, management stated that a copy of the commission's policy and schedule would be forwarded to the Division of State Audit by June 30, 1997. No such drawdown policy and schedule were developed.

Policy 20, Component 01, Section 02, 20-01-204, states, "Federal drawdowns must be made utilizing the STARS grant module (available on STARS report Number 832) unless the grant language specifies use of check clearance patterns. Unless disallowed by Federal law or grant agreement, all drawdowns must be performed at least weekly."

Although the commission is utilizing the STARS grant module to make federal drawdowns, the drawdowns continue to be made quarterly rather than weekly during periods of grants expenditures. No exception request has been made to or approved by the chief of the Division of Accounts, Department of Finance and Administration, to exempt the commission from weekly drawdowns.

If funds are not requested in a timely manner, state funds must be used to cover the related expenditures when federal funds are not available. In addition, when federal funds are not requested in a timely manner, state interest income is lost.

Recommendation

The executive director should determine why no action has been taken to ensure federal drawdowns comply with the Department of Finance and Administration's Policy 20, or request exemption from the policy.

Management's Comment

We concur. Since 1996 (and the last audit report), the commission has worked with the Office of Cash Management of the Department of Finance and Administration to develop a drawdown policy and schedule for the commission that will comply with Policy Statement 20 which requires a weekly drawdown of federal dollars (regardless of whether or not there is any activity necessitating such a drawdown). Because of the timing of the commission's allocation of federal dollars and subsequent requests for those dollars, the individuals involved in this effort were unable to create a schedule that would bring the commission into compliance. However, in order to document the nature of the problem and why the commission is not in compliance with Policy Statement 20, the monthly STARS 832 report has been maintained. In response to a recent verbal request to Finance and Administration for an exemption from Policy 20, we were told a forthcoming revision of this policy will allow for a monthly, rather than weekly, draw-down of federal dollars. This, we believe, will allow us to be in compliance with the (revised) policy.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Tennessee Arts Commission filed its report with the Department of Audit on July 22, 1997. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Tennessee Arts Commission had corrected previous audit findings concerning ineffective management practices, inadequate controls over merchandise inventory and sales records at the Tennessee State Museum gift shop, failure to file Financial Integrity Act reports, and late performance evaluations of Tennessee State Museum staff.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning the Tennessee State Museum's failure to deposit all donation-box receipts, the museum's incomplete inventory of its artifacts and antiques, late drawdowns of federal funds, the museum's inadequate controls over equipment, and the commission's failure to systematically monitor subrecipients. These findings have not been resolved and are repeated in the applicable sections of this report.

OBSERVATIONS AND COMMENTS

COLLECTION OF STATE MUSEUM FUNDS—SPECIAL INVESTIGATION

During the financial and compliance audit of the Tennessee Arts Commission for the years ended June 30, 1997, and June 30, 1996, auditors discovered that Tennessee State Museum funds totaling \$540.51 could not be traced to a deposit and could not be located by museum or commission staff.

Our review determined that from April 3 through June 11, 1996, the Director of Administrative Services for the Tennessee Arts Commission had signed the Incoming Funds Log representing that she had accepted custody of state museum funds totaling \$5,949.89. The Director of Administrative Services acknowledged that she had not actually counted the funds, had not prepared a receipt for the funds, and had not promptly deposited the funds because the account technician assigned to handle those responsibilities had resigned. According to the Director of Administrative Services, the funds were placed in a locked desk drawer in a vacant commission office until the newly hired account technician deposited the funds on June 28, 1996. However, \$540.51 of the funds could not be traced to a deposit and could not be located by museum or commission staff.

The Director of Administrative Services stated that she was responsible for safeguarding the funds and thus was responsible for the loss. She denied taking the money for personal use as did other museum and commission staff interviewed by the auditors. According to the Executive Director of the Tennessee Arts Commission, on June 12, 1998, he administered a verbal reprimand to the Director of Administrative Services for her failure to properly safeguard state

museum funds. Other weaknesses regarding the collection and deposit of state museum funds and our recommendations to correct deficiencies are contained in finding 4 of this report.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ended June 30, 1997, the Tennessee Arts Commission filed its compliance report and implementation plan on July 3, 1997, and for the year ended June 30, 1996, on July 9, 1996.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor has not designated a monitoring agency for the Executive Branch.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Tennessee Arts Commission divisions and allotment codes: 316.25 Tennessee Arts Commission, 316.27 Tennessee State Museum.

Tennessee Arts Commission Funding Sources

Fiscal Year Ended June 30, 1997 (Unaudited)

\$637,988.00 (99.5%) Federal

\$3,190.00 (0.5%) Current Services

Source: Tennessee Arts Commission

Tennessee Arts Commission Funding Sources

Fiscal Year Ended June 30, 1996 (Unaudited)

\$760,430.00 (98.8%) Federal

\$9,175.00 (1.2%) Current Services

Source: Tennessee Arts Commission